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Indiana budget outlook worse than thought

Latest data show $1 billion less in revenue.

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INDIANAPOLIS -- It's another round of bad economic news for Indiana, as a revised forecast projects the state will take in nearly $1.1 billion less in revenue over the next two years than first expected. Now, Indiana lawmakers face the tough task of crafting a new state budget that compensates for the loss.

The revised forecast comes on the heels of a similar forecast last month that projected the loss to be about $830 million less than the previous forecast issued at the end of 2008.

Gov. Mitch Daniels had called the April forecast "too rosy," and along with other state administrators, called for the new forecast to be made in May.

Now, the governor faces the tough task of working with state lawmakers to include the new projections in the crafting of a new state budget. Lawmakers failed to pass a spending plan before the end of their regular session in April.

Daniels has promised to call legislators back to the Statehouse for a special session in June. The two sides will have to hammer out a deal before the state's current budget runs out on June 30.The new revenue forecast was met with frowns and scowls from lawmakers at the Statehouse Wednesday, particularly because it was accompanied with the news that Indiana tax receipts are already down a record 7.5 percent as the state nears the end of its fiscal year.

Indiana House Speaker B. Pat Bauer, (D-South Bend, said the new forecast should serve as a call to action.

"That really means more businesses are in more trouble than we knew, because that's a steep decline," Bauer said of the report. "Obviously this will adjust the budget downwards. It also means Indiana is in a much tougher economic position than the governor painted." In fact, Bauer believes Daniels has known about the probability of additional declines for nearly a month.

"I think the governor knew some of this, perhaps even a few days before the end of the (regular) session, and the legislature wasn't brought into it. But the unpredictability of this was not anyone's fault. It was just so steep that it took time for that first-quarter report to become hard numbers," Bauer said.

Indiana's state budget director Chris Ruhl agrees, saying the data were simply coming in too quickly to track."In short, the economy was changing so rapidly over such a short period of time that it was difficult to pick up these changes," Ruhl said.

It's likely those changes will now create an uphill budget battle ahead.

At the heart of the debate will be a tough choice between spending cuts, alternative revenue sources or tax increases. Some House lawmakers, including Bauer, want to use a portion of the state's estimated $1.3 billion in rainy day funds to keep proposed increases to programs like public education intact.

On Wednesday, Daniels again called that a dangerous move.

"We'll have to do this by keeping our spending very much under control and we've got to keep some money in reserve until we know we're beginning to see a recovery," Daniels told reporters at the Statehouse.But others are convinced the new forecast may increase support for a cash reserve raid.

"When you receive news like this, that we're going to be $500 million to $1 billion short of where we thought we would be just a month and a half ago, it makes no sense to sit on cash reserves," said Sen. John Broden, D-South Bend.

"We need to come out of this recession soon and strong. Spending dollars is the best way to do that," he continued.

There could be another wild card as well.

"We do have two good things happening to us," said Bauer. "We have that surplus of $1.3 billion, but we also have federal stimulus money of about $3.5 billion. Some of that can be spent on education.""Indiana will be able to put about $1 billion, and maybe more, into our operating budget from the stimulus dollars we're receiving from the federal government," agreed Broden. "So, while we lose $1 billion to the forecast, we have $1 billion that in most normal times we wouldn't have."

Not all lawmakers agree that's where the money should be spent.

"We will never be able to stimulate our way out of this, and we can't just rainy day fund our way out of it," said Rep. Jackie Walorski, R-Jimtown.

She has another solution. "We have to reduce spending. Our only choices are spending reductions or tax increase, and I refuse to look at tax increases because I don't think my district can handle it. We simply have to stop spending money. As a legislator, I would support across the board cuts at the state level," Walorski said.

The other unanswered question revolves around the length of the budget itself.House Democrats broke with tradition to craft a one-year budget bill in February. It passed the chamber over adamant opposition of outnumbered Republicans.

House majority leaders, including Bauer, say the one-year plan makes sense this year because the economy is in the tank, state tax collections have been coming in well below projections, and there are too many financial uncertainties to pass a multibillion-dollar budget that covers two years.

GOP leaders, including House Minority Leader Brian Bosma and Daniels, worry that a one-year budget this year could set a new precedent for a full-time legislature that would draft a new budget every year.

That would likely lead to more spending and tax increases to pay for it, they argued.

Both Walorski and Broden said the length of the spending plan wouldn't change their vote on it, regardless of whether it's one or two years.Some economists say with revenue forecasts continuing to become more unpredictable, a "longer term" plan could be risky.

"I definitely think you want to plan on the short term when you have a volatile economy like we're in now," said Saint Mary's College economics professor Dr. Jerome McElroy. "Whenever you project something, you base it on longer term assumptions built up over, say a five-year time span. And yet, we're still finding there are these massive changes.

"The Indiana economy is heavily invested in what we could call cyclically sensitive industries, things like housing, RVs, automobiles and other types of manufacturing. These industries tend to move more deeply with the cycle. So, if the economy is falling, they're falling even further, and your tax revenues fall right along with it. You want to be as accurate as you can be when your planning long term. So, when the balls are bouncing and you don't know quite where you are, you'd better be conservative," McElroy said.

The question now: Will the two sides be able to turn the new forecast into a workable budget before time runs out? The answer depends on who you ask.

"I think it's going to get ugly," Walorski said. "I think there's going to be a lot of fighting and wrangling ahead."Bauer agreed, but then said, "We don't have a choice. We have to, and we will."

"I'm staying optimistic," agreed Broden. "Because neither the governor nor the legislature will look good if we don't get it done by June 30."

The Associated Press contributed to this report.